

Message Text

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ACTION ARA-10

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-07
FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02
OPIC-03 SP-02 LAB-04 EPG-02 SIL-01 OMB-01 NSC-05
SS-15 STR-04 CEA-01 L-03 H-01 PA-01 PRS-01 AGR-05
IGA-02 ARAE-00 /104 W
-----031739Z 112088 /43

P R 031445Z MAY 77
FM AMEMBASSY KINGSTON
TO SECSTATE WASHDC PRIORITY 5071
INFO AMEMBASSY BONN
AMEMBASSY CARACAS
AMEMBASSY LONDON
AMEMBASSY OTTAWA
AMEMBASSY PORT
AMEMBASSY THE HAGUE

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E.O. 11652: N/A
TAGS: EAID, JM
SUBJECT: JOINT US/JAMAICAN ECONOMIC COMMITTEE BEGIN WORK

1. SUMMARY: FIRST MEETING OF US/JAMAICAN JOINT ECONOMIC COMMITTEE MARKED BY CANDID EXCHANGES, OBVIOUS DETERMINATION OF JAMAICANS TO MAKE MAJOR EFFORT AT COOPERATION, AND HIGH LEVEL OF JAMAICAN PARTICIPATION. SOMBER, REALISTIC TONE OF MEETING REFLECTED CONCURRENT DISCUSSION BETWEEN FOREIGN MINISTER PATTERSON AND DEPUTY ASSISTANT SECRETARY LUERS (SEPTEL). GOJ TEAM REVEALED KEEN APPRECIATION OF INTERRELATIONSHIP BETWEEN BALANCE OF PAYMENTS, BUDGETARY AND INCOMES POLICY AND INDICATED CURRENT MEASURES UNDER CONTINUING REVIEW TO DETERMINE WHETHER "STRONGER MEDICINE" REQUIRED. GOJ NOW ANTICIPATES 3-5 YEARS EFFORT REQUIRED TO OVERCOME BASIC IMBALANCE BETWEEN PRODUCTION AND
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CONSUMPTION, WITH NEED FOR FOREIGN ASSISTANCE OF \$150-200 MILLION PER YEAR. END SUMMARY.

2. GOJ FIELDDED IMPRESSIVE TEAM FOR JOINT COMMITTEE, INCLUDING MINISTER OF STATE RICHARD FLETCHER, CENTRAL BANK GOVERNOR G. ARTHUR BROWN, AND HIS DEPUTY, GLADSTONE BONNICK, AND PERMANENT SECRETARIES OF KEY MINISTRIES.

GOJ PRESENTATION NOTABLY FACTUAL, DEVOID OF RHETORIC OR POLITICAL COLORATION. FLETCHER OPENED BY TRACING PRESENT ECONOMIC CRISIS NOT TO EVILS OF CAPITALISM OR "DESTABILIZATION," BUT RATHER TO A BASIC STRUCTURAL IMBALANCE -- CONSUMPTION OUTSTRIPPING PRODUCTION -- WHICH HAD ITS ORIGINS IN THE LATE 50'S. HIGH RATES OF FOREIGN INVESTMENT IN THE 60'S PERMITTED CONTINUED IMBALANCE, BUT FOREIGN INVESTMENT DROPPED IN THE EARLY 70'S. IL PRICE INCREASES COMPOUNDED THE IMBALANCE AND WERE ONLY PARTLY OVERCOME BY INCREASED REVENUES FROM THE BAUXITE LEVY. LEVY IN TURN ENCOURAGED MORE IMPORTS AND ULTIMATELY EXASPERBATED THE PROBLEM BY ESTABLISHING NEW IMPORT PLATEAU.

3. ACCORDING TO FLETCHER, GOJ AT FIRST HOPED CORRECT IMBALANCE IN ONE YEAR (1977) BY HOLDING IMPORTS TO \$600 MILLION. NOW EVIDENT HOWEVER THAT HOLDING IMPORTS TO THAT LEVEL WOULD CREATE FOOD SHORTAGE, REDUCE EXPORTS AND GENERATE LARGE-SCALE UNEMPLOYMENT. IMPORT LIMIT NOW SET AT \$750 MILLION, WITH PRIORITY TO FOOD, CLOTHING, SHELTER, RAW MATERIALS, CAPITAL GOODS, AND SPARE PARTS REQUIREMENTS. SUCH OTHER INDESPENSIBLE IMPORTS AS PETROLEUM, AMOUNTING TO \$210 MILLION, AND BAUXITE INDUSTRY REQUIREMENTS OF \$100 MILLION ARE INCLUDED IN \$750 MILLION FIGURE.

4. GOJ CALCULATES THAT CORRECTING BASIC IMBALANCE BETWEEN PRODUCTION AND CONSUMPTION WILL REQUIRE 3 TO 5 YEARS, DURING WHICH FOREIGN EXCHANGE GAP WILL AVERAGE \$150-200 MILLION PER YEAR. GOJ HOPES TO CLOSE THIS GAP WITH FOREIGN ASSISTANCE.

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5. IMMEDIATE REQUIREMENT IS FOR \$50 MILLION BY END JUNE. APPROXIMATELY \$50 MILLION PER QUARTER IS EXPECTED SHORT-FALL THEREAFTER. (ACCORDING TO G. ARTHUR BROWN, GROSS RESERVES AT END OF MAY WILL BE \$12.5 MILLION, MOST OF WHICH IN BONDS AND SDR'S WHICH CANNOT BE USED TO COVER IMPORTS.) SITUATION WILL BE EASED SOMEWHAT IF, AS ANTICIPATED, CANADA ROLLS-OVER ITS \$25 MILLION LOAN THIS MONTH. (HOWEVER, ROLL OVER IS EXPECTED FOR ONLY THREE MONTHS AND NEXT QUARTER'S REQUIREMENTS WOULD BE RAISED.) GOJ IS ANTICIPATING \$50 MILLION LOAN FROM TRINIDAD. IT REMAINS TO BE CLARIFIED WHETHER THIS IS PART OF OR IN ADDITION TO THE \$150-200 MILLION GAP.

6. THROUGHOUT PRESENTATION, BOTH FLETCHER AND BROWN RELATED IMPORT RESTRICTIONS AND RECENT DEVALUATION DIRECTLY TO INCOMES POLICY. GOJ TEAM IS NOW WORKING ON INCOMES POLICY AND HOPES PUT IT INTO EFFECT JULY 1. IN MEANTIME, WAGE FREEZE IN EFFECT, "WITH ONLY HANDFUL OF LEAKS."

TO BE SUCCESSFUL, INCOMES POLICY WILL REQUIRE UNION ACCEPTANCE, AND TOUGH NEGOTIATIONS ARE IN PROSPECT. APRIL 22 DEVALUATION HOPEFULLY WILL SERVE TO HOLD DOWN INFLATION OF PRICES FOR BASIC CONSUMPTION ITEMS, THEREBY HELPING WIN UNION ACCEPTANCE OF UPCOMING INCOMES POLICY. ALTHOUGH POLICY NOT YET FRAMED, GOJ BELIEVES IT WILL HAVE TO CONSIDER INDEXATION.

7. FLETCHER NOTED THAT GOJ MEASURES ANNOUNCED BY MANLEY APRIL 22 (DEVALUATION, LIMIT ON DEFICIT BUDGET EXPENDITURES) WILL BEGIN TO TAKE HOLD IN 1-3 MONTHS. GOJ INTENDS MONITOR EFFECTS CONTINUALLY TO DETERMINE "IF STRONGER OR DIFFERENT MEDICINE IS NEEDED."

8. BROWN NOTED THAT GOJ IS HOLDING BACK APPROVAL OF FOREIGN EXCHANGE PAYMENTS IN MANY AREAS TO CONSERVE DWINDLING RESERVES. ALTHOUGH GOJ IS "PAYING ON THE DOT" ALL GOVERNMENT AND GOVERNMENT GUARANTEED OBLIGATIONS, PRIVATE DEBT REPAYMENT INCREASES LIMITED OFFICIAL USE

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INGLY SUBJECT TO DELAY IN FOREIGN EXCHANGE AVAILABILITY. (DETAILS ON THESE "SUPPRESSED PAYMENTS" WILL BE PROVIDED TO US TEAM LATER.)

9. FLETCHER ALSO NOTED GOJ HOPES TO RAPIDLY INCREASE PRODUCTION OF IMPORT SUBSTITUTES AND STEP UP NON-TRADITIONAL EXPORT PRODUCTION.

10. TEAMS WILL SPLIT INTO TWO OR MORE GROUPS FOR FUTURE SESSIONS. ONE GROUP WILL CONCENTRATE ON TRADE QUESTIONS. ANOTHER WILL FOLLOW UP IN DETAIL ON TODAY'S DISCUSSIONS WITH BROWN. STUDY OF BUDGET AND LONGER TERM DEVELOPMENT PROBLEMS ALSO ON AGENDA FOR SMALLER GROUP STUDY.

11. ALL FIGURES ARE IN JAMAICA DOLLARS AT THE PRE-APRIL 22 EXCHANGE RATE.
DORRANCE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC COOPERATION, ECONOMIC CONDITIONS, COMMITTEE MEETINGS, FOREIGN ASSISTANCE PROGRAMS
Control Number: n/a
Copy: SINGLE
Sent Date: 03-May-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977KINGST02137
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770154-1250
Format: TEL
From: KINGSTON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t197705100/aaaaditz.tel
Line Count: 156
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 5ac55087-c288-dd11-92da-001cc4696bcc
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 27-Dec-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2319899
Secure: OPEN
Status: NATIVE
Subject: JOINT US/JAMAICAN ECONOMIC COMMITTEE BEGIN WORK
TAGS: EAID, ECIN, JM, US, (FLETCHER, RICHARD), (BROWN, G ARTHUR), (BONNICK, GLADSTONE)
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/5ac55087-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009